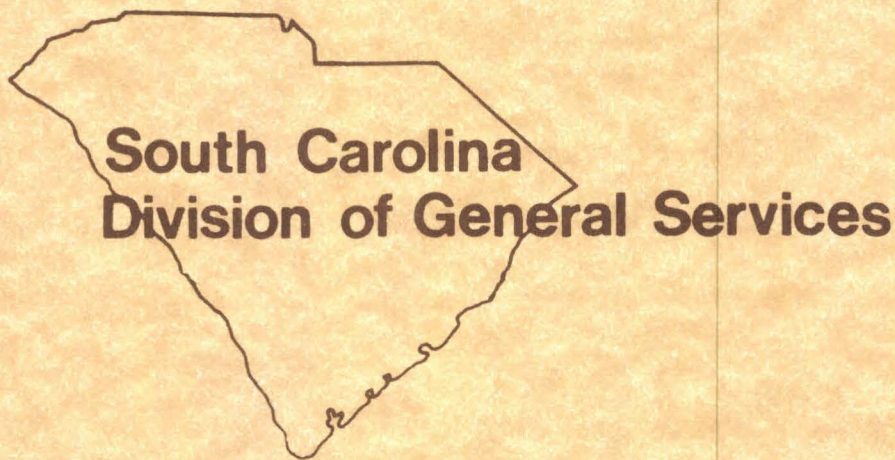


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# PROCUREMENT AUDIT AND CERTIFICATION

BUDGET AND CONTROL BOARD  
DIVISION OF GENERAL SERVICES  
MATERIALS MANAGEMENT OFFICE

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AGENCY

JULY 1, 1986 - APRIL 6, 1988

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DATE



SOUTH CAROLINA  
BUDGET AND CONTROL BOARD  
DIVISION OF GENERAL SERVICES  
MATERIALS MANAGEMENT OFFICE

AUDIT REPORT

JULY 1, 1986 - APRIL 6, 1988

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November 2, 1988

Jesse A. Coles, Jr., Ph.D.  
Executive Director  
Budget and Control Board  
612 Wade Hampton Office Building  
Columbia, South Carolina 29211

We have examined the procurement policies and procedures of the Division of General Services Materials Management Office for the period July 1, 1986 through April 6, 1988. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Division of General Services Materials Management Office is responsible for establishing and



maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Division of General Services Materials Management Office, in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy, Manager  
Audit and Certification



## INTRODUCTION

The Materials Management Office is an organizational component of the Division of General Services of the State Budget and Control Board. Two sections of the Materials Management Office, State Procurements and the Information Technology Management Office, procure all goods and services, consultant services and information technology above governmental body authority limits for the State of South Carolina.

Specifically, Section 11-35-810 of the South Carolina Consolidated Procurement Code created the Materials Management Office as follows:

There is hereby created within the Division of General Services, a materials management office to be headed by the materials management officer. The materials management officer shall be at an organizational level answering directly to the director of the Division of General Services.

Additionally, Section 11-35-820 of the Code created the Office of Information Technology Management as follows:

There is hereby created, within the Division of General Services the information technology management office to be headed by the information technology management officer. All procurements involving information technology, and any pre- and post- procurement activities in this area, shall be conducted in accordance with the regulations promulgated by the board except as otherwise provided for in this code by specific reference to the information technology management office.

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the Materials Management Office. Our on-site review

was conducted April 1 - June 30, 1988 and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, that the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.



## BACKGROUND

Section 11-35-1230 of the South Carolina Consolidated Procurement code states in part:

The Division of General Services through consultation with the chief procurement officers shall develop written plans for the auditing of state procurements.

In procurement audits of governmental bodies thereafter, the auditors from the Division of General Services shall review the adequacy of the system's internal controls in order to ensure compliance with the requirement(s) of this code and the ensuing regulations. Any noncompliance discovered through audit must be transmitted in management letters to the audited governmental body (and) the Budget and Control Board. The auditors shall provide in writing proposed corrective action to governmental bodies.

On March 11, 1988, the Director of the Division of General Services directed the Office of Audit and Certification to perform an audit of the Materials Management Office.

On April 22, 1988, the Executive Director of the Budget and Control Board authorized the Office of Audit and Certification to perform the audit of the Materials Management Office and directed that, while performing this review, we report directly to him.

In further effort to strengthen the objectivity with which the audit would be performed, the Executive Director instructed the Budget and Control Board Internal Auditor to represent him throughout the performance of the audit. Toward this end, the Internal Auditor reviewed the audit program, internal control questionnaire and sampling plan prior to the performance of the audit. Subsequently, the Internal Auditor reviewed the workpapers and report to determine that the audit was objectively performed and that all pertinent audit exceptions were included in the report.

## SCOPE

The scope of our audit of the Materials Management Office was limited to an examination of procurements made in its capacity as the chief procurement office of the State of South Carolina. The two sections of the Materials Management Office that manage procurements for governmental bodies of this state are State Procurements and the Information Technology Management Office.

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Materials Management Office and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected random samples from the period July 1, 1986 - April 6, 1988, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our tests of procurement transactions included a random sample of two hundred forty (240) items, additional judgementally selected procurement transactions to ensure a test of at least five procurements handled by each purchasing agent of the Materials Management Office and thirteen additional judgementally selected state term contract procurements. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:



- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and Regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) economy and efficiency of the procurement process.

## SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Materials Management Office (MMO) indicated that, generally speaking, procurements were managed effectively and in compliance with the Consolidated Procurement Code. However, we did note the following exceptions that we believe to be subject to correction or improvement.

### PAGE

#### I. Bidders File Not Maintained Efficiently

13

One critical element of a successful procurement function is its source of potential bidders for solicitations. MMO utilizes a central bidders list of vendors who have expressed interest in making sales to the state. This bidders list is supplemented by advertisements in South Carolina Business Opportunities. However, we noted inefficiencies in MMO's preparation of the central bidders list that resulted in a poor response rate on some solicitations.

#### II. Poor Results From Solicitation

16

In five cases, poor results were received from vendors based on solicitations for bids.

#### III. Insufficient Competition Solicited and Obtained

17

##### A. 4 x 4 All Terrain Vehicles

17

Two procurements of 4 x 4 all terrain vehicles were made without soliciting the required number of bidders.



B. State Term Contract Established Based on a  
Single Bid Response

18

A requisition was received from a single agency for six rotary mower tree cutters. The solicitation was changed by MMO to a state term contract. Invitations for bids were sent to the required number of vendors but only one responded. Award was made as a state term contract, which is mandatory for all governmental bodies, without input from other agencies and based on the single bid.

IV. Contract Modified Inappropriately

20

In one case, an order for \$17,923.15 was increased to \$76,222.30 through the issuance of a contract modification even though the additional work was clearly outside the scope of the original contract.

V. Analyses of Single Bid Responses Not Prepared

22

Section 2-410.1(a) of the MMO Procedures Manual requires that a formal written analysis be performed to support an award based on a single bid response. In five cases, this analysis was not prepared.

VI. Failure to Prepare a Determination  
Stating That All Known Vendors Were Solicited

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Regulation 19-445.2035 outlines minimum solicitation requirements for procurements of various dollar amounts. Further, it states, "If the minimum number of qualified bidders required under this Regulation cannot be solicited, the appropriate Chief Procurement Officer or the head of a governmental body shall certify in writing that all known sources were solicited." This was not done in one case.

VII. Solicitations Not Advertised in South Carolina Business Opportunities

24

Section 1-800.5 of the MMO Procedures Manual requires that "All State Procurement solicitations exceeding \$2,500.00 except bid cycles shorter than 21 days and designated minority solicitations will be formally advertised in South Carolina Business Opportunities." Four procurements exceeding \$2,500.00 were not advertised as this requires.

VIII. Multi-term Contracts Not Supported by the Required Written Determinations

25

In three cases, multi-year contracts were not supported by the required multi-term determinations. Additionally, three such determinations were prepared after the fact.

IX. Coordination Between MMO and the State Engineer's Office

26

Procurements of construction and construction related supplies and materials for permanent improvement projects must be approved in advance by the State Engineer's Office. Responsibility for obtaining these approvals lies with the requesting agencies. However, in our opinion, MMO should confirm that these approvals have been obtained by the requesting agencies before awards are made.

X. Other Items

29

MMO has a practice of discarding all no bids received from vendors. These should be retained to improve file documentation.

MMO also has a practice of using "white-out" to clean up requisitions and other documents in procurement files before they are sent to the Operations Section for key entry. This is done to avoid confusion, but it may destroy the audit trail.



## RESULTS OF EXAMINATION

### I. Bidders File Not Maintained Efficiently

One critical element of a successful procurement function is its source of potential bidders for solicitations. MMO utilizes a central bidders list of vendors who have expressed interest in making sales to the State. This bidders list is supplemented by advertisements in South Carolina Business Opportunities (SCBO). However, we noted inadequacies in MMO's preparation of the central bidders list that resulted in a poor response rate on some solicitations.

Section 11-35-1520(3) of the Consolidated Procurement Code states in part:

All sources requesting to be put on a bidders list shall be so enlisted, unless the chief procurement officer or head of a purchasing agency makes a written determination that the source should not be enlisted... The chief procurement officer(s) and the heads of procurement agencies shall ensure that the bidders list contain all known sources interested in bidding on state procurements...

MMO places strict emphasis on the first sentence of this section which refers to "sources requesting to be put on a bidders list." In order to be added to the MMO bidders list, a vendor must prepare and submit an application providing information of his/her business and indicating the commodities that they market. However, there is no procedure for adding vendors to the bidders list based on:

- (1) Responses to SCBO advertisements;
- (2) Recommendations from other governmental bodies or acceptance of similar vendor applications made to those governmental bodies; or,

(3) Review of sources of potential bidders such as:

- (a) Thomas Register
- (b) Sweet's Catalog File
- (c) Telephone yellow pages

Such vendors may respond to specific solicitations based on SCBO advertisements or agency recommendations but they are not added to the bidders list even if they are awarded contracts resulting from these solicitations.

Additionally, MMO has no procedure for removing nonresponsive vendors from the bidders list. We noted that many vendors on the bidders list have been nonresponsive to solicitations but they remain on the bidders list.

Regulation 19-445.2035, Subsection A, states in part, "Bidders not responding to three consecutive bid requests from a governmental body will be placed on an inactive status. Bidders may reapply..."

As a result of the above, MMO personnel have stated that their response rate to solicitations is approximately twenty percent (20%). Our test results indicate a response rate of fifty-three percent (53%) when SCBO responses are included. However, the response rate from SCBO advertisements is better for some commodities than others.

We recommend that MMO strengthen its bidders list through the following steps:

- (1) Adding vendors who have made application to and are on the bidders lists of the larger state agencies. Since MMO is the central purchasing unit of the State it should network with other state agencies, the satellite purchasing units of the State, so that vendors added to agency bidder lists would be added automatically to MMO's bidder list.



Until this can be done electronically, vendors suggested by other agencies should be added to the MMO bidders list, particularly if they are awarded MMO contracts based on agency recommendations for specific solicitations.

- (2) Adding vendors that respond to SCBO advertisements, particularly if they are awarded MMO contracts as a result.
- (3) Removing nonresponsive bidders in accordance with Regulation 19-445.2035.
- (4) Updating its sources of potential bidders. MMO's copy of the Thomas Register is dated 1984 and its copy of Sweet's Catalog File is dated 1982.

#### MMO RESPONSE

- 1. We concur that a method of automation to add bidders from agency satellites would be a methodology to increase the bidder's list, however because the dollar limit of agency purchases are limited to lesser certification it is the desire of some vendors not to be on the centralized bidder's list at MMO. We are concluding the thirteenth year of an automated bidder's list and it is common practice in all states for vendors, desiring to bid for business, to request and submit a bidder application. We do encourage agencies to submit prospective bidders to us and do receive such requests on a limited basis. We also list our solicitations with BidNet who distributes these on a nationwide basis to approximately 1500 subscribers.
- 2. Response by contract award shall be interpreted as a request by the bidder to be added to the bidder's list unless otherwise notified by the bidder.
- 3. A new automated statewide procurement system, presently being selected and implemented, will allow for purging and adding to the bidders listing in a timely fashion and allow for the tracking of non-responsive bidders.
- 4. The Thomas Register and the Sweets Catalog will be updated and used as the primary reference sources for printed potential bidder information as soon as possible. Other sources, which are up to date, are in use at this time.



## II. Poor Results Received From Solicitations

Poor results were received from the following solicitations for bids:

<u>Solicitation</u> <u>Number</u>	<u>Amount</u>	<u>Description</u>
(1) 6-695-1125200-10/07/87A	\$ 5,680.00	Printing services
(2) 2-695-1108200-05/27/87A	5,498.22	Printing services
(3) 2-695-1123200-04/08/87A	6,815.00	Printing services
(4) 2-695-1112103-01/13/88	84,397.00	Printing services
(5) 2-070-1105600-02/04/88P	7,356.00	Cushman cart

For the first four solicitations above, the buyer simply followed his practice of obtaining a copy of the MMO bidders list and cutting out partial lists of ten names each for his upcoming solicitations. Their names were cut out from a list of vendors that had stated they could bid on a certain specialty. Most vendors in this commodity do specialize in particular types of work. However, the results of this practice were that only two responses were received from the vendors who were invited to bid on these four solicitations. Competition was received only due to responses to SCBO advertisements.

On item five above, solicitations were sent to twelve vendors. Two vendors responded with one being rejected and the other receiving the award. The manufacturer was not contacted to locate distributors and dealers in the state. Only one qualified response was received.

We recommend that more care be taken to identify qualified bidders for all solicitations. Where it is not known who the dealers may be, we recommend that manufacturers or distributors

be included in the solicitations or, at least, that they be contacted for a list of possible vendors.

#### MMO RESPONSE

With reference to Bid No. 2-070-1105600-02/04/88-P for Cushman Cart, 3-wheel, this relates to buyer knowledge. There is limited competition in this type vehicle - "E-Z-GO" and "Cushman". The bid list used (070-24 and 070-27), included Carolina Industrial Equipment, Charlotte, NC and Wrenn Handling both of whom have bid on other similar bids. (See 2-070-1116206-10/07/87 and 2-070-1200200-05/06/88). Electrical Machinery, Charleston, SC was also on mailing list and bid on a previous 4-wheel courtesy vehicle (2-070-1116206-10/07/87) but did not respond to the one in question. While there is always room for more research on bidders, the buyer was reasonably assured of competition in this case. In fact, two bids were received, but the low bidder (by approximately \$230.00) was rejected as non-responsive.

A new automated procurement system should address the problem of identifying responsive bidders.

### III. Insufficient Competition Solicited and Obtained

#### A. 4 x 4 All Terrain Vehicles

We noted two procurements of 4 x 4 all terrain vehicles and trailers where insufficient competition was solicited. In both cases lot A was for the 4 x 4's and lot B was for the trailers. They were as follows:

<u>Solicitation Number</u>	<u>Lot A 4 x 4's</u>	<u>Lot B Trailers</u>
2-070-1125200-01/07/88	\$15,883.00	\$2,875.00
2-070-1125200-02/24/88P	12,120.00	2,875.00

As can be easily seen, the 4 x 4's comprised the majority of the expenditure dollars resulting from these procurements. In both cases, the required minimum of ten bidders were solicited for the total procurement, but not for lot A - the 4 x 4's.

In the first case above, only two of the ten vendors solicited were 4 x 4 dealers. The rest were trailer dealers. In the second case, only five of the ten vendors solicited were 4 x 4 dealers.

In the first case above, responses of \$15,883, \$25,025, and \$29,365 were received for the 4 x 4's. The last two responses, however, were received from trailer dealers. Based on the extremely high prices received from the trailer dealers, we believe these bids to be courtesy bids only.

In the second case above, only one response was received for the 4 x 4's. Award was made based on this single response.

It must be noted, that at the time of this audit, the MMO bidders list for motorcycles and 4 x 4's contained four names with only one from South Carolina.

We recommend that the MMO bidders list be improved in this commodity area and reiterate the recommendations made in item I. of this report. Further, we recommend that where awards are made by lots and where the vendors could not be expected to bid on all the lots that the required number of qualified bidders be solicited for each lot.

B. State Term Contract Established Based on a Single Bid Response

The Department of Highways and Public Transportation submitted a requisition for six rotary mower tree cutters. Rather than soliciting competition for these items as an agency purchase or an agency contract, State Procurements combined this item with others and solicited competition as a state term contract. Reference 1-515-51248-01/08/88, lot B.



Invitations for bids were sent to the required number of vendors but only one responded. The solicitation did not include the manufacturer or its area distributor. Invitations were only sent to retail dealers.

This office contacted the manufacturer who indicated that they would not bid but they gave us the name of their distributor in Atlanta.

This office questions the decision of establishing a state term contract, which is mandatory for all governmental bodies, based upon a request from one agency. Other agencies were not contacted to see what their requirements or needs might be. We also question the establishment of a state term contract based upon a single response to a solicitation.

Since the Procurement Code makes state term contracts mandatory for all governmental bodies, MMO should be conservative in establishing such contracts. State term contracts should not be established based on a request from a single agency. Agency contracts should be used instead. State term contracts should be limited to those goods or services that are known to be needed by multiple agencies. Input from those agencies should be sought to ensure that their needs are met.

#### MMO RESPONSE

- A. 4 x 4 All Terrain Vehicles - Recommendation noted. More care will be exercised in source selection. The Auditors acknowledged that the MMO advertised this solicitation in SCBO which has a circulation of more than 1800 copies.

- B. State Term Contract Established Based On A Single Bid Response The items in question are heavy duty road equipment used primarily by the DHPT. All agencies and potential subdivisions look to DHPT for expertise in writing such specifications and the DHPT would have the majority of input on any specification for a term contract. Term contract will allow counties and cities to utilize the combined purchasing power where an agency contract for the DHPT would have excluded them - a detriment to both the DHPT and political subdivisions. This has been a very successful contract.

#### IV. Contract Modified Inappropriately

On September 25, 1986, MMO prepared purchase order number 54048 totalling \$17,325.00 to furnish and install approximately 602 telephone wires, riser cable and jacks as specified in bid number 2-791-1103221-09/18/86-P. The work was to be performed as part of a permanent improvement project for a state agency and coordinated by the Division of Information Resource Management.

On March 4, 1987, the contract was amended to add \$598.15 for additional cost to the vendor when the project was delayed at no fault of theirs. We believe this amendment was appropriate.

On September 3, 1987, the contract was amended to add \$58,299.15 for additional work requested by the state agency and the Division of Information Resource Management not identified prior to the award of the contract. This increase amounted to a three hundred thirty-seven percent (337%) increase to the original contract.

The work to be performed under the amendment to the contract was similar to that procured under the original contract but was clearly outside its scope. In fact, the letter requesting the amendment from the Division of Information Resource Management stated, "We have reviewed the additional work



performed and agree that it was not covered in the original contract award to (the vendor)."

Documentation in the file indicates that the work originally scheduled for completion November 15, 1986 was far past its scheduled completion date. Further, documentation indicates, or certainly implies, that the work had already been performed when the amendment was processed.

We recognize that MMO was in a difficult position, but we feel that the MMO amendment was inappropriate. If the agency was faced with an emergency condition due to project delays, they might have declared the additional work an emergency. If the additional work had already been performed, it should have been noted as an unauthorized procurement on the part of the agency. However, MMO, by amending the original contract, accepted responsibility for the amendment. MMO should not have accepted this responsibility.

#### MMO RESPONSE

Bid No. 2-791-1103221-09/18/86-P - Install Telephone Jack Wire and Riser Cables - MUSC. This bid was developed and issued under our quasi "construction/repair" methodology. Some general conditions are incorporated by reference from AIA document A107 April 1978 edition. This reference is made on page two of the IFB. Article 18.1 states:

"The owner ..... may order changes in the work consisting of additions, deletions, modifications, the contract sum and ..... time being adjusted accordingly. All such changes ..... shall be authorized by written change order signed by the owner and the architect."

Article 18.2 - "The contract sum and contract time may be changed by change order."

Article 18.3 - "The cost or credit to the owner .... shall be determined by mutual agreement."



The contract was amended as evidenced by written documentation from DIRM - the office of Boykin Roseborough. However, we realize that this particular modification, resulting in a huge difference in the contract was unusual. The typical modification undertaken by the MMO at the request of the authorizing agency is much smaller in scope and are typically and routinely handled by the buyer on behalf of the agency.

V. Analyses of Single Bid Responses Not Prepared

During the period of July 1, 1986 - March 31, 1988, MMO received single bid responses to solicitations in 420 cases and no responses in 99 cases. Section 2-410.1(b) of the MMO Procedures Manual requires the bid clerk to log all "one-bids" and furnish a monthly recap to supervision. Section 2-410.1(a) of the MMO procedure manual requires that the procurement officer document the following information:

- (1) an analysis or opinion as to why only one bid was received;
- (2) A determination that the price is fair and reasonable, basis for the determination to award and other proposed action; and,
- (3) What does the procurement officer propose to do on the next bid for the same item to increase the potential of competition?

These steps are normally taken by the MMO staff. However, in the following five cases, the analyses were not prepared:

	<u>Solicitation Number</u>	<u>Amount</u>
(1)	1-515- -01/08/88	\$15,165.00
(2)	2-695-1117500-02/17/88A	11,899.50
(3)	2-205-1105622-07/28/87	7,140.00
(4)	2-600-1123100-12/08/87	6,295.00
(5)	2-675-1125200-03/31/88	8,693.00

Further, items one and two above, were not logged in by the bid clerk.

These are violations of MMO procedures.

We recommend that the MMO procedures be complied with in all cases. This is a critical element to encourage and expand competition.

#### MMO RESPONSE

MMO has procedures established to monitor and control the analysis of single bid responses. As noted, the procedures are being followed in the majority of cases (415 out of 420). MMO will continue in its efforts to assure that procedures are followed in all cases.

Reference Bid No. 1-515-01/08/88 - \$15,165.00 Lot B of a four lot bid was a single bid. We do not consider this a "single bid response" since all lots are related (heavy duty mowers).

#### VI. Failure to Prepare a Determination Stating That All Known Vendors Were Solicited

Solicitation number 6-555-1112103-09/01/87-42P for an automatic traffic data collection system was awarded for \$116,036.00 based on a solicitation being sent to two vendors.

Regulation 19-445.2035 requires that procurements of \$10,000.00 or more be supported by solicitations from a minimum of ten qualified sources. It states further:

If the minimum number of qualified bidders required under this regulation cannot be solicited the appropriate Chief Procurement Office or the head of a governmental body shall certify in writing that all known sources were solicited.

Further investigation into the market for traffic data collection systems by this office revealed that the solicitation and the award were proper. However, the required written determination was not prepared.

We recommend that this determination be prepared in all such cases in accordance with Regulation 19-445.2035.

#### MMO RESPONSE

Agreed. MMO will continue in its efforts to assure that procedures are followed in every solicitation.

#### VII. Solicitation Not Advertised in South Carolina Business Opportunities

The following bid solicitations were not advertised in "South Carolina Business Opportunities."

<u>Solicitation Number</u>	<u>Description</u>	<u>Amount</u>
2-902-1107307-12/21/87P	Frozen fish	\$ 6,585.00
2-030-1105612-11/06/87A	Cooling tower	13,910.00
8-901- -06/09/87	Fresh bakery products	247,463.95
2-902-1107307-03/23/87A	Frozen meats	8,734.00

Section 1-800.5 of the MMO Procedures Manual requires "All State Procurement solicitations exceeding \$2,500.00, except bid cycles shorter than 21 days and designated minority solicitations, will be formally advertised in South Carolina Business Opportunities."

Additionally, all quarterly food buys are procured using a pre-qualified list of vendors. We agree that advertising the quarterly food buy is impractical. However, we recommend that State Procurement advertise asking vendors to participate by seeking pre-qualification.



This exception to MMO procedures is not authorized in the MMO Procedures Manual.

#### MMO RESPONSE

This recommendation is accepted and periodic insertions in SCBO will advise vendors in the method to seek pre-qualification.

#### VIII. Multi-term Contracts Not Supported by the Required Written Determinations

Contract number 8-405-18155-08/19/86 for LP gas and contract number 6-793-44186-07/13/87 for sanitation service were multiple year contracts but they were not supported by the required determinations for multi-term agreements. Solicitation number 6-270-1107307-01/06/87 was a fifteen month contract for drugs that was not supported by a multi-term determination. Additionally, in three cases, multi-term determinations were prepared at the times contracts were extended, not at the time of the original solicitation. They were as follows:

<u>Solicitation Number</u>	<u>Description</u>
1) 6-695-1105619-09/03/86	Printing services
2) 8-695- -10/22/86	Printing of maps
3) 6-793-91390 -04/14/87	Coffee and tea service

Section 11-35-2030(2) of the Procurement Code states:

Prior to the utilization of a multi-term contract, it shall be determined in writing by the appropriate governmental body:

- a) that estimated requirements cover the period of the contract and are reasonably firm and continuing;
- b) that such a contract will serve the best interests of the state by encouraging effective competition or otherwise promoting economies in state procurement.

This same procedure is called for in the MMO Procedures Manual in section 1-313.2.

In 1982, the then Materials Management Officer ruled that, in order for a contract to be a multiple year agreement, it had to be supported by a multi-term determination at the time of the procurement, it had to be solicited as a multiple year agreement and it had to include a method for escalating costs during subsequent years of the contract. We recommend that this be complied with in all multiple year contracts.

#### MMO RESPONSE

MMO procedures regarding multiple year agreements have not changed since the 1983 decision by the Materials Management Officer. MMO has reemphasized the use of multiple year contracts with the purchasing staff and will continue in its efforts to assure compliance with established procedures and code.

#### IX. Coordination Between MMO and the State Engineer's Office

Procurements of construction and construction related supplies and materials for permanent improvement projects are covered by the Manual for Planning and Execution of State Permanent Improvements (SPIRS Manual). The SPIRS Manual requires that all procurements made for permanent improvements be approved by the Division of General Services, State Engineer's Office.

For construction procurements, which must be approved on a case by case basis by the State Engineer's Office, State Procurements did not ascertain that the procurements were properly authorized. Examples of this were:

<u>Solicitation Number</u>	<u>Amount</u>	<u>Description</u>
1) 2-791-1200300-10/13/86	\$25,052.75	Furnish and install new roof
2) 2-670-1107307-03/31/87	9,935.50	Plumbing fixtures
3) 2-791-1112103-01/09/87A	44,800.00	Furnish and install new roof
4) 2-420-1200210-06/10/87P	14,010.00	Cafeteria furniture
	19,512.00	Cafeteria furniture
5) 2-150-1110100-05/19/87A	3,494.37	Wood trusses
6) 2-150-1107307-05/04/87P	9,356.00	Doors and frames
7) 2-285-1107307-02/19/88A	37,905.89	Electric panels, etc.

Responsibility for obtaining these approvals lies with the requesting agencies. However, in our opinion, MMO should confirm that these approvals have been obtained by the requesting agencies before the awards are made. Authority to award such contracts does not exist either at the agency or at MMO without these required approvals.

Where it is known that a procurement is of construction and construction related items for a permanent improvement project, the transaction should be supported by either:

- 1) Form SE-380, Request for Authority to Execute a Construction Contract, approved by the State Engineer, for procurement of contractor services within a permanent improvement project; or,
- 2) Form SE-520, Request for Authority to Purchase Equipment and/or Construction Material.

#### MMO RESPONSE

State Engineer's Office - The recommendation is correctly stated in that it is the agency's responsibility to obtain the State Engineer's approval. We point out that the auditors make no finding on the procurement process.

The approval by the State Engineer is a point for management to resolve in an appropriate manner.



X. Other Items

MMO has a practice of discarding all no bids received from vendors. A no bid is distinguished from a no response by the fact that the vendor had the courtesy to return a no bid to us.

We recommend that no bid responses be retained to document the files. If the vendor took the time to return a no bid it should be retained. If MMO follows the regulations and eliminates from the bidders list those vendors who fail to respond to solicitations repeatedly, as addressed in item I of this report, the no bid responses will be needed.

Additionally, MMO has a practice of using "white-out" to clean up requisitions and other documents in procurement files before they are sent to the Operations Section for key entry. This is done to avoid confusion, but it may destroy the audit trail and it adds unnecessary suspicion to purchases.

Another method of cleaning up requisitions should be used either by highlighting the necessary or unnecessary notes on requisitions or using cover up tape that could be peeled off if necessary. The use of "white-out" should be discontinued.

MMO RESPONSE

1. Agree and a procedure has been initiated to retain all no bid responses as a part of the permanent file.
2. A method to ensure that audit trails will not be obliterated on requisitions has been placed into effect.

## CONCLUSION

In the performance of the audit of the Materials Management Office of the Division of General Services, the Office of Audit and Certification spent five man-months reviewing policies, procedures and procurement transactions. As indicated in the Scope section of this report, we tested approximately three hundred (300) procurement actions. Overall, we were impressed with procurement management at the Materials Management Office.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement. Corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place the Materials Management Office of the Division of General Services in compliance with the South Carolina Consolidated Procurement Code and regulations.

STATE OF SOUTH CAROLINA  
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HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

September 26, 1988

Mr. R. Voight Shealy, Manager  
Audit & Certification  
Materials Management Office  
1201 Main Street, Suite 600  
Columbia, South Carolina 29201

Dear Voight,

In response to your request of September 7, enclosed is the response of this office to your procurement audit report.

During the period covered by your audit (July 1, 1986 through April 6, 1988) this office processed 7691 Purchase Requisitions, issued 4095 formal Bids/RFP's which were distributed to 54,247 vendors and resulted in contracts totalling \$465,000,000.00.

With limited exceptions, your findings show that our office is in compliance with the Procurement Code, Regulations and MMO Procedures Manual. The majority of comments address findings which are very much appreciated and will be given full consideration for implementation by management.

In closing I want to express our appreciation for the work of your staff in this audit and assure you of our continuing efforts to follow the established procedures in all cases.

Sincerely,

James J. Forth, Jr.  
Assistant Division Director

cc: Rick Kelly

**MATERIALS MANAGEMENT OFFICE**

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Surplus Property  
Boston Avenue  
W. Coll. S.C. 29164  
734 5444

Supply, Warehousing & IMS  
1942 Laurel Street  
Coll. S.C. 29201  
734 7914

Training & Research  
3100 Gervais Street  
Annex 3  
Coll. S.C. 29201  
737 2060

State Procurements &  
Information Technology Management Office  
1201 Main Street  
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Office of Audit & Certification  
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EXECUTIVE DIRECTOR

RICHARD W. KELLY  
DIVISION DIRECTOR

November 10, 1988

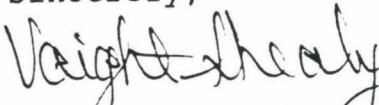
Jesse A. Coles, Jr., Ph.D.  
Executive Director  
Budget and Control Board  
612 Wade Hampton Office Building  
Columbia, South Carolina 29211

Dear Dr. Coles:

We have determined the progress made by the Materials Management Office (MMO) toward implementing the recommendations in our audit report covering the period July 1, 1986 - April 6, 1988. MMO has taken steps to eliminate specific exceptions noted in the report.

Since procurement certification is not an issue in this case Budget and Control Board action is not necessary, so I recommend that this report be submitted to them for information.

Sincerely,



R. Voight Shealy, Manager  
Audit and Certification

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